MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

DEC5024 – MACROECONOMICS

(All sections / Groups)

28 FEBRUARY 2020
3.00 p.m – 5.00 p.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 11 pages with 2 sections.

2. Attempt **ALL** questions in Section A and Section B. The distribution of the marks for each question is given.

3. Please write all your answers for Section A on the OMR form provided and all answers for Section B in the Answer Booklet provided.

SECTION A: Multiple Choice Questions (40 Marks)

1. Which of the following is a topic learned in Macroeconomics?

   A. Unemployment rate in Singapore.
   B. The wage of Infinion.Inc worker.
   C. The price of Dell computers.
   D. The amount of ice cream produced.

2. Fine-tuning is _____.

   A. government's role in regulating inflation and unemployment
   B. firm's role in balancing the debt and equity
   C. household's role in balancing work life and personal life
   D. market's role in finding the finest quality of product at the lowest price

3. Financial instruments that give the holder a share in the firm's ownership and the right to share in the firm's profits is called _____.

   A. shares of stocks
   B. corporate agreement
   C. treasury bills
   D. dividends

4. In the circular flow diagram, the government _____.

   A. receives taxes from firms and households, pays firms and households for goods and services and pays interest and transfers payment to households
   B. pays taxes to firms and households, received tax from firms for goods and services and pays interest on loan and transfers assets to households
   C. receives transfer payment from firms and households, pays firms and households for goods and services and pays interest on loan and transfers credit to households
   D. pays taxes to firms and households, received markup from firms and households for goods and services and pays interest and transfers to households

5. The followings are major concerns of macroeconomics, **EXCEPT** _____.
   A. Price of Honda City
   B. output growth
   C. GDP growth rate
   D. inflation

Continued...

6. In the Circular Flow Model of Income and Output, _____.

I. Household spends money in product market
II. Firm pays wages, rent, interest and profit in factor market
III. Firm earns revenues in product market
IV. Household pays income in factor market

A. I, II, III and IV.
B. II and III.
C. III and IV.
D. I, II and III.

7. The equality of income and value of production shows the link between _____.

A. productivity and living standards
B. procurement and shipping
C. profit and loss
D. subjective and normative

8. _____ and _____ will stimulate household to spend more.

A. Higher interest; lower wealth
B. Higher income; lower interest rates
C. Lower income; higher interest rates
D. Lower wealth; higher stagflation

9. If planned investment is exactly equal to actual investment, then planned aggregate expenditure is exactly equal to _____.

A. aggregate profit
B. aggregate saving
C. aggregate revenue
D. aggregate output

10. The _____ is the ratio of the change in the equilibrium level of output to a change in some autonomous variable.

A. paradox
B. consumer price index
C. GDP deflator
D. multiplier

Continued...

11. The relationship between consumption and income is called the _____.

A. consumption function
B. investment function
C. wealth function
D. saving function

12. If you save RM80 when you experience a RM400 rise in your income, _____.

A. your MPS is 0.25
B. your MPC is 0.80
C. your MPC is 0.85
D. your MPS is 0.40

13. If Logan received a RM2,500 allowance and his MPS is 0.20, his consumption rises by RM _____ and his saving rises by RM _____.

A. 500, 100.
B. 2,500, 200.
C. 2,000, 500.
D. 2,500, 20.

14. In a closed economy with no government, aggregate expenditure is _____.

A. consumption plus investment
B. saving + investment
C. consumption + MPC
D. MPC +MPS

Refer to the information provided in Table 1.0 below to answer question 15 and 16.

ALI Bank

Assets		**Liabilities**	
Reserve	RM1.2 million	Deposits	RM 8 million
Loan	RM6.8 million		
TOTAL	**RM 8 million**	**TOTAL**	**RM 8 million**

Table 1.0

Continued...

15. Calculate the required reserve ratio for ALI Bank.

A. 15%
B. 10%
C. 5%
D. 20%

16. ALI Bank could make additional first round loans of RM400,000 if the required reserve ratio was _____.
A. 12%
B. 10%
C. 8%
D. 7.5%

17. *"To function as money an asset must be portable and easy to use; it must be light, small to carry around and easy to transfer ownership."*

Which characteristic of money relates to the above statement?

A. Acceptability.
B. Durability.
C. Convenience.
D. Uniformity.

18. Which commodity below does **NOT** has an intrinsic value to be considered as money?

A. Japanese Yen.
B. Gold bar.
C. Silver.
D. Diamond.

19. The commercial bank could create more money if _____.

I. the central bank increases monetary base
II. the bank reduces its desired reserve
III. the household increases their desired currency holding
IV. the central bank reduces monetary base

A. I only
B. II and III
C. II, III and IV
D. II and IV

Continued...

20. M1 is a measure of _____.

A. money and includes both currency and checking deposits
B. liquidity and in which the most liquid asset is money
C. money and includes both savings deposits and currency
D. money and includes both savings deposits and money market mutual funds

21. The long-run aggregate supply curve (LAS) is vertical at potential GDP because _____.

A. potential GDP is independent of the price level
B. potential GDP is dependent of the price level
C. potential GDP is not relevant with aggregate supply
D. potential GDP is expected price level

22. A rise in the price level (*ceteris paribus*), decreases the quantity of real wealth. This will encourage _____.

A. people to increase saving and decrease spending
B. the quantity of real GDP demanded to increase
C. people to decrease saving and increase spending
D. people to increase saving and increase spending

23. In the inter-temporal substitution effect, people will substitute from _____ to _____ when the price level and interest rates fall.

A. export; import
B. import; export
C. spending; saving
D. saving; spending

24. Which of the following is **NOT** the reason for changes in potential GDP?

A. An increase in the full- employment quantity of labor
B. An increase in consumer expectation
C. An increase in the quantity of capital
D. An advance in technology

25. Frictional unemployment occurs because of the following **EXCEPT** _____.

A. conflict between labor and management
B. a mismatch between skills and existing jobs
C. normal labor market turnover
D. recession

Continued...

26. Cyclical unemployment will be _____ during expansions and will be _____ during recessions.

A. decreased; increased
B. decreased; decreased
C. increased; increased
D. increased; decreased

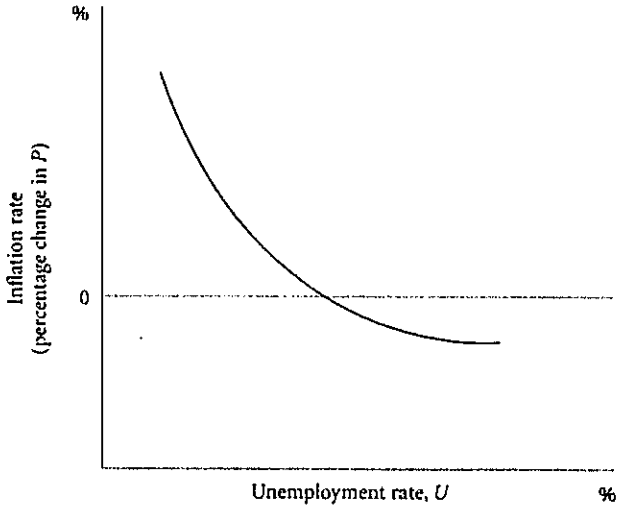

Figure 1

27. Figure 1 shows the relationship between the inflation rate and the unemployment rate. What is the name of the curve?

A. The labor productivity curve.
B. The PPF.
C. The aggregate unemployment curve.
D. The Philips curve.

28. Suppose that over a period of years the country of Wakanda switched from being an agriculturally-based economy to a technologically-based economy. As a result, many people lost jobs because the lack of skills to adapt to technology. As they search for new jobs, these people are part of _____.

A. frictional unemployment
B. structural unemployment
C. cyclical unemployment
D. potential unemployment

Continued...

29. The growth rate of _____ measures the pace of expansion of a country's production possibilities and smoothed out the business cycle fluctuations in the growth rate of _____.

A. nominal GDP; GDP deflator
B. real GDP; potential GDP
C. potential GDP; real GDP
D. GDP deflator; nominal GDP

30. Which of the followings is advantage of economic growth?

A. Better standard of living and lower unemployment.
B. increase in money supply.
C. Increase scarcity.
D. Lower employment rate.

31. You have just been appointed to a special Task Force on Economic Growth. You are responsible for proposing a policy that the government can enact to increase the growth rate in manufacturing production so that the standard of living could be increased. What policies would you recommend?

A. Revise overnight policy rate.
B. Subsidizing research and development.
C. Increase working hours.
D. Reduce capital growth.

32. Which of the followings is considered as physical capital by economist?

A. Shares and bonds.
B. Education, experience or training.
C. A factor of production.
D. Money.

33. When we state that the economy grows at 2% per year over a period of 40 years, what does the 2% represent?

A. The growth rate.
B. The depression.
C. The inflation.
D. The stagflation.

Continued...

34. Which of the following combinations do firms use to produce output?

A. Labor and productivity.
B. Labor and unemployed.
C. Capital and labor.
D. Capital and services.

35. The record of a country's transactions of goods and services, plus incomes and transfers of money to and from abroad, is called _____.

A. balance of trade
B. capital account
C. capital accumulation
D. balance of payment

36. All currencies other than the domestic currency of a given country are referred as _____.

A. fiat money
B. gold
C. near money
D. foreign exchange

37. If a Canada citizen could buy £25,000 for $100,000, the rate of exchange for the pound would be _____ per pound.

A. $400
B. $25
C. $4
D. $0.25

38. Malaysian residents demand foreign currencies to _____.

A. produce goods and services exported to foreign countries
B. pay for goods and services imported from foreign countries
C. receive interest payments on investments in Malaysia
D. have foreigners make financial investments in Malaysia

Continued...

39. Which of the following statements is **TRUE**?

A. A country runs a capital account deficit if it imports more than it exports.
B. Receipts from exports of goods and services sold abroad is recorded under capital account.
C. Official reserves are the government's holdings of the country's currency.
D. The sum of the balances of payment will always equal to zero.

40. The current account in the balance of payment _____.

A. measures our exports minus our imports taking into account interest payments paid to and received from the rest of the world (net transfer).
B. measures our imports minus our exports.
C. does not account for interest payments paid to and received from the rest of the world.
D. is part of GDP.

(Total: 40 marks)

Continued...

SECTION B: Structured Questions (60 Marks)

QUESTION 1

(a) Distinguish between goods and services market and labor market. (4 marks)

(b) What is the difference between fiscal policy and monetary policy? (4 marks)

(Total: 8 marks)

QUESTION 2

Table 2.0 shows the aggregate output (income) (Y) and planned investment (I) of Country Z for ten years. Consumption equation given as: **C = 50 + 0.6Y.**

You are required to answer in table format for following:

YEAR	OUTPUT (INCOME) (RM million)	PLANNED INVESTMENT (RM million)
1	500	300
2	700	300
3	900	300
4	1,100	300
5	1,300	300
6	1,500	300
7	1,700	300
8	1,900	300
9	2,100	300
10	2,300	300

Table 2.0

(a) Calculate the consumption spending (C) and saving (S) for every year. (10 marks)

(b) Calculate the country's Planned Aggregate Expenditure (AE) for every year. (5 marks)

(Total: 15 marks)

Continued...

QUESTION 3

(a) List the **THREE (3)** factors which limit the quantity of deposit created by banks. (3 marks)

(b) Explain **TWO (2)** structure in banking system. (4 marks)

(c) Explain **THREE (3)** main determinants of aggregate demand. (9 marks)

(Total: 16 marks)

QUESTION 4

(a) Explain **THREE (3)** types of unemployment with an example for each. (9 marks)

Item	Amount
Under age of 16	93 million people
Working age population	230 million people
Employment	138 million people
Labor Force	160 million people

Table 3.0

(b) Based on the information from Table 3.0, compute:

i. Unemployment rate (3 marks)

ii. Labor force participation rate (3 marks)

iii. Total number of people not in labor force (3 marks)

iv. Overall population for the country (3 marks)

(Total: 21 marks)

End of Paper